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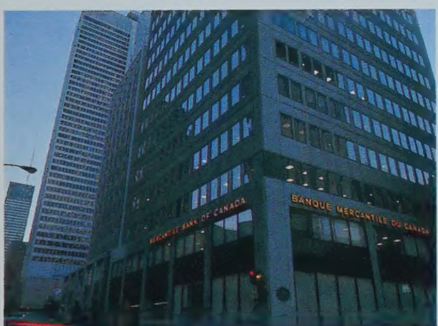
Mercantile Bank of Canada 1976 Annual Report

Mercantile Bank of Canada

Financial Highlights

	1976	1975
Total assets	**$1,708,093,219**	$1,288,162,567
Total loans	**1,243,839,064**	992,029,562
Total revenue	**149,841,205**	94,154,664
Balance of revenue after provision for income taxes	**13,908,103**	11,402,344
Per share	**1.74**	1.57
Balance of profits for the year	**10,208,103**	8,902,344
Per share	**1.28**	1.22
Average number of shares outstanding throughout year	**8,000,000**	7,282,192



Head Office and Montreal Branch, Dorchester Boulevard West

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President And Chief Executive Officer's Address

John P. Murphy

In considering 1976 and its significance in the annals of political and economic history, it could well appear parochial, not to say prosaic, to address the subject in terms of the coming revision of Canadian bank legislation. Nevertheless, this has been the theme that has greatly exercised bank management throughout the year and to a large degree the general public insofar as it thinks of banks at all. This concern is appropriate as the new legislation promises to have a profound and long term effect on the shape and substance of the Canadian banking industry, and consequently on the national economy as well.

To some extent, the potentiality of this Bank Act revision has been underestimated. The dominant ideas in most writings on the subject have been for or against greater scope of chartered bank activity under the aegis of greater government regulation, and the pros and cons of extending uniform government regulation to all areas of non-bank financial activity.

The direction presumably to be taken, however, as indicated in the Minister of Finance's White Paper on the Revision of Canadian Banking Legislation and seemingly in the teeth of most public commentary, is toward the promotion of greater competition in the finance industry at large. Greater competition implies greater freedom, and that in this day and age is a welcome departure from the norm. Recent history has witnessed the increasing phenomenon of state directed economies. Actions prompted by the Great Depression of the Thirties, the needs of war mobilized economies and the emergence of fiscal policy as the key determinant of levels of business activity have underlined the movement away from a free market oriented economy. The imminent threat of state managed societies is real enough as more vital functions of society (health, education, transport, power, et alia) pass from private to public hands. Heightened competition in the finance industry in Canada on the other hand with new entrants being encouraged and assisted is a move against the trend, and it should be supported. It is hoped that the final legislation adheres to this guiding principle of greater competition as enunciated in the government's White Paper.

The government's stated position on banking legislation has been analyzed, criticized, lauded or challenged by many interested parties, and it is not our intention to add to the already extensive literature on the subject. There are only two areas that concern us. One is the often cited and now presumed need to encompass all financial entities, banks and near-banks alike, under the same regulatory umbrella. In itself, this could be counter productive to the fostering of competition and of dubious social benefit. A fully regulated industry while equitable in concept is not necessarily fully responsive to particular market needs. Contrariwise, a unified financial market dominated by a few established large organizations might produce the opposite effect. Innovativeness and hence competitiveness might well be prejudiced if restraints common to all financial companies are imposed.

Secondly, the quantitative limits indicated for foreign owned banks could likewise prove a deterrent to enhanced competition. Competition is a function of size as well as numbers, and the restrictions cited for foreign banks could prove substantial at the very point where their presence could have some impact in the banking market. We take this position realizing full well that our bank, the Mercantile, by reason of size, history, and market concentration, is one of the most vulnerable to the proliferation of new banking entities. However, we support competition; we certainly do not fear it.

In any event, the new Bank Act revision will not become law before July 1, 1977, and certainly not in time to affect banking materially in the current fiscal period. In the meantime, we will continue operating in an economy where words like sluggishness, slow recovery, extended pause, economic lull, are to say the least descriptive. Canada, in this sense, is a mirror of much of the developed world, where 1976, while at first promising much, is ending with most of our problems far from resolved - the energy crisis, tension in the Middle East, Southern Africa, uncertainties with the international monetary system and the fragility of monetary values, sub-par economic performances by most developed nations, and on and on. Only inflation,

generally speaking, has declined, but it remains persistent, if not endemic. Our expectations for 1977 are that this situation will not greatly change. We are then, as the current phrase would have it, moderate pessimists.

Here in Canada we share in the great uncertainty surrounding the near term future. Indeed, the long view for this generation has rarely, if ever, been so obscured by the immediate reality. To complement the broader difficulties, the Anti-Inflation Board continues to cast a shadow on the business scene. While inflation has undoubtedly declined since the inception of the AIB, it might be questionable to attribute the major credit for this salutary development to the efficacy of this government initiative. At the same time, it would probably be unreasonable to claim that the present unacceptable state of the economy is the responsibility of the AIB, or rather the government. At its worst, the AIB is an excuse for poor performance; at its best, it gives pause to threatened excesses. This latter possibility is particularly evident in the public sector. Under present circumstances, the temptation of strong fiscal stimulation could be very attractive, and the AIB might well be the bulwark against that and the resumption of double digit inflation, a dolorous outcome to a sisyphean effort. In any event, the AIB distorts the economy over time, and it might well be discarded if more positive business trends develop.

More ominous for the longer term are the recent political developments wherein the integrity of the nation as an institution has been challenged. To extrapolate from current readings can comfort or disturb as there is wide division of opinion over what the present situation portends. One thing is certain; there has been added a new and disturbing element to decision making and one more reason for avoiding in the name of prudence the longer term commitment. This unfortunately is so universally held as to be basic, and the present unsatisfactory state of the economy cannot over the short term be helped by this development. Most observers had already marked their expectations for 1977 down in recent months, and the present political scene has dampened their outlook further. Such negative forecasts can be largely self-fulfilling. They certainly cannot be ignored. At the same time, and as in the case of the Anti-Inflation Board, today's political events should not mask the underlying malaise affecting business not only in Canada but in most developed countries as well. While the need for whipping boys is fundamental, causes should never be confused with effects.

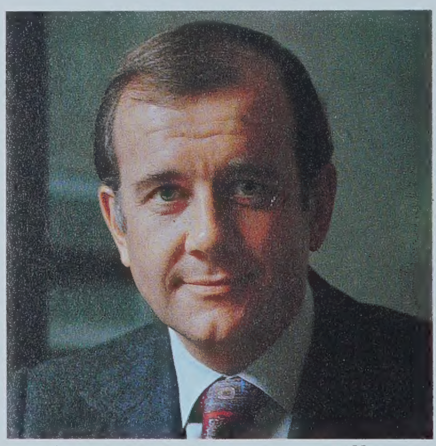
Considering this lugubrious recital of regulatory change, increased competition, economic flatness and political uncertainty, you might well decide that our bank's immediate prospects have suffered accordingly. This, however, is not the case. The industry's trend has remained essentially positive as most banks' results have demonstrated, and our bank by most indicators has been outperforming the industry as a whole. The year 1976, despite the general lacklustre performance of the economy, saw a substantial increase in the volume of banking business, and the commanding position of chartered banks as suppliers of credit to both business and individuals has become even more dominant. Conditions now prevalent in the market indicate that this will continue in 1977, if only at a less accelerated pace.

The historian, Gibbon, wrote, "All that is human must retrograde, if it does not advance". While he was writing in the Age of Enlightenment, and therefore to some, the very antithesis of our own, we nonetheless hold a similar view for our institution, not only for the long term which is axiomatic, but for our immediate prospects. To that end, we have programmed for 1977 continued growth in assets, geographic representation, human resources and profitability. Our business volume will grow with the industry and with the increasing need in the corporate loan market for professional banking services of the high order we provide. Our emphasis on the domestic corporate market will not change. Moreover, we are a national bank, and selective and restricted additions to our branch network will facilitate our continued penetration of our well delineated market segment. Our recruiting and development of skilled personnel responds to our present needs, and more importantly positions us for our long term commitment to corporate banking. Finally we are a disciplined organization and the level of profitability reflects the adherence to what we consider sustaining appropriate corporate strategies.

In conclusion, while we are by no means sanguine about the immediate future, we remain confident of our capacity to perform well in our industry and against all our competitors.

Executive Vice President And Chief General Manager's Report

Walter A. Prisco



The year 1976 was one different for us from past years for a number of reasons. It was the first year in five that we weren't faced with the need to issue new shares. As you know, because one shareholder, Citibank, held more than 25% of the share ownership of the bank, our total asset size was limited by the Bank Act to twenty times authorized capital. Authorized capital in 1971 was $10 million, therefore limiting asset size to $200 million, and the only means by which an increase in authorized capital could be obtained was to solve the problem of ownership concentration. Citibank agreed to permit the reduction of its holding below 25% by a series of six capital stock issues which because of the Bank Act would necessarily be sold to Canadians. In any event these share issues were completed in 1975, and Citibank ownership is now 24.2%. We didn't have a new share issue in 1976, and asset size is not now restricted in any way by the Bank Act.

Another way in which the year was different was that for the first time in years all of the business generated by the bank could be carried on the balance sheet of the bank. During the issue period when the total size of our assets was restricted, the demand for our type of lending skills far outstripped the limited room on our balance sheet. Rather than curtail our marketing efforts and so destroy our momentum, or turn away borrowers whose good-will we had built up over the years, we originated business and participated parts of it to other financial institutions. Participation of loans, while not common in Canada, is practiced in many other countries where banks are often much smaller and it is prudent to spread the risk associated with sizable loans among several institutions. Although this business was not on our books and was not contributing any significant revenue to us these borrowers were serviced by Mercantile Bank in the same competent way as all clients of the bank.

From the time the sixth issue was completed in April 1975 to the end of October 1975 most of these participated loans came back on Mercantile's books. This repatriation of participated loans accounted for much of the 84.3% growth in total assets of October 1975 over October 1974. The growth of 1976 over 1975 October to October was 32.6%, a rate which pales when compared to the 84.3%. However as I have explained the 84.3% growth in 1975 was not all attributable to that year and should not be used as the basis of judging 1976 performance.

Because we no longer have restrictions on total asset size there is an impact on our liquidity. While balance sheet room was scarce we allocated almost all of it to loans which generally have a higher yield than liquid assets such as Treasury Bills, day loans, call loans, other government securities and commercial paper. Now that we are no longer restricted we have built up liquid assets and at October 31 this year they were $207 million or 13.2% of deposits.

Another factor which makes 1976 different stems from action of the federal government. The government has produced both the White Paper on the Bank Act revision and the Anti-Inflation program which came into being mere days before the 1976 fiscal year began. The President has already commented on the Bank Act revision and I would like to comment on the Anti-Inflation program (AIB) as it relates to Mercantile Bank. As announced in September banks can choose as their base year for AIB purposes either fiscal 1975 or the five years ending October 1974. Mercantile Bank has chosen fiscal 1975 as our base year. Because of the bank's strong performance in 1975, due in large part to the favourable interest rate conditions existing for most of the year, we believe we can operate within the guidelines without major discomfort. Where we might be hurt by the AIB is by the effect it might have on the borrowing activities of our corporate customers. If it discourages capital expansion and dampens the economy as some say it has and will, we would therefore suffer from smaller than anticipated loan growth.

Turning now to the operating results of 1976 I mentioned earlier that Mercantile's assets grew 32.6% October to October or by $420 million to $1,700 million. This compares to a bank industry growth rate of approximately 15.4%. I say approximately because not all banks have reported. Our loans increased $252 million or 25.4%. Given that our target market is corporate borrowers I'll now focus in on the type of

business we do. The Bank of Canada produces data quarterly on Canadian loans to business which are gathered from the banks themselves. The most recent statistics available are for June 1976. Internally, when we measure our performance as against the industry we add to the Bank of Canada statistics income debentures and loans we have participated to other financial institutions. On this basis, for loans greater than $1 million, Mercantile Bank showed a growth rate in June 1976 over June 1975 of 26.5% versus 18.1% for the industry. On a share of market basis for loans greater than $1 million we now have 6.5% of the market compared to 6.1% last year and 5.2% in 1974. We are reasonably satisfied by our growth in the domestic market and are now looking to the international market as a means of expanding our horizons. These international credits consist of small portions of consortium loans arranged by major Canadian and American banks, particularly Citibank. Country risk exposure is being carefully monitored to ensure that we are not overexposed in any one area. As of October 31, this year, we had $48.9 million outstanding in international loans, nearly all of it being to government or para-government borrowers.

Our earnings this year, that is our balance of revenue after taxes, were $13.9 million, an increase of 22% over 1975. The banking industry had a growth in earnings of approximately 3.6%. On an earnings per share basis we rose to $1.74 per share from $1.57 per share or 10.8%. Because of the two share issues in 1975 the average shares outstanding in that year were 7.3 million compared to 8.0 million this year—a dilution rate of 9.9%.

Interest rate spreads in 1976 were very much narrower than in 1975, a year of abnormally high spreads. While average loans for the year grew by approximately 65%, net interest earnings, that is interest revenue less interest cost, grew by only 21.8%. In our opinion 1976 spreads are a more normal experience.

Operating expenses for the bank rose by $3.4 million or 27.6%. If the increase in provision for loan loss is excluded from expenses the increase in operating expenses would have been $2.1 million or 18.0%. Of this $2 million increase $1.5 million was for payment to staff. Although at the end of October 1976 our total staff of 498 was up by only fifteen persons from the same date in 1975, on average we had 36 more people in the bank in 1976. This increase was made up in large part of higher paid credit officer staff. As well, on May 1 this year an 8% across the board salary increase was declared for most staff. This was a measure which was defensive on our part given the similar actions by our competitors. All this combined with our normal merit and promotional salary adjustments accounted for the increase.

Turning back to the balance sheet, you'll note an increase in our accumulated appropriations for losses account of 66.7% which now stands at $13.3 million. This is an account whose purpose is to provide a reserve for major contingent losses. The significant items which accounted for change in this account are an appropriation from 1976 earnings, together with a tax credit, of $7.1 million, plus offsetting net loan losses of $1.9 million. This means that our loan losses were $1.9 million greater than the amount charged to earnings in 1976. The amount expensed in a year is arrived at through a formula based on a five-year loss history with the difference between losses actually incurred and the amount expensed charged to the accumulated appropriation for losses account.

The bank's actual loan losses for 1976 were $4.2 million and the amount expensed was slightly less than $2.3 million. Our loan loss ratio was approximately eighteen basis points, a figure which compares to thirty basis points for the banking industry in 1975. There is no doubt that in these less than vigorous times a bank must always keep an eye on loan quality, an obligation which we take very seriously. The loan losses which we have provided for are, we believe, realistic.

At the same time, banks are in business to take calculated risks in return for interest differential and fee income. The challenge is to assure the risk is well evaluated before funds are advanced and well monitored during the life of the loan. Our 1976 results indicate that we've been successful in this regard.

I'd like to make one more point before I close. There are no short cuts to building a successful bank. Talented, highly motivated people are needed as are good operating systems and tight control procedures. A solid base of satisfied clients is also necessary. A strong and continued earnings performance is a must. I believe Mercantile meets all these tests and our efforts will be pointed towards their continued fulfillment in the coming years.

An Analysis of the 1976 Financial Results

ASSETS

Total assets were $1,708 million at October 31, 1976, up $420 million, or 32.6%, from the end of fiscal 1975. This increase, while considerable, is down from that achieved in 1975 when an 84.3% increase in total assets was recorded. A large part of this 1975 growth,however, was attributable to business negotiated prior to the elimination of the $800 million asset ceiling imposed on the bank due to one shareholder having more than 25% of the share ownership. This Bank Act restriction was lifted when that shareholder's (Citibank,N.A.) ownership fell below the 25% level after an issue of one million shares to Canadian shareholders in April 1975. That issue was the last in a series of six which brought Citibank ownership down from 96.7% in 1972 to 24.2% in 1975. In effect, this past year, 1976, was the first in the recent history of Mercantile Bank in which the bank was completely free of asset restrictions. In fact then, we say that this past year was one in which Mercantile's operations returned to normal.

Loans

The 32.6% increase in assets compares favourably to the 15.7% growth for the banking industry as a whole. The largest part of the growth in assets was in loans which rose by $252 million, or 25.4%, versus a growth rate of 16.6% for the entire banking industry.

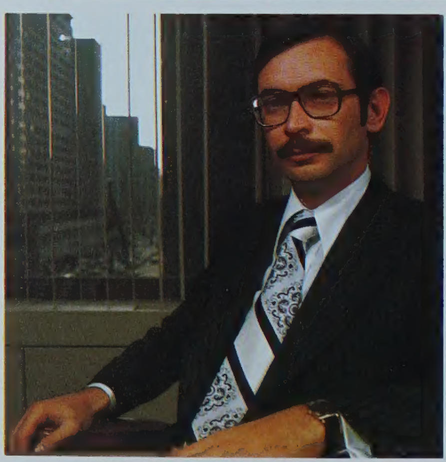
Based on 498 employees at year-end, assets per employee stood at $3.4 million in 1976 versus $2.7 million last year; equivalent figures for loans were $2.5 million in 1976 and $2.0 million in 1975.

Loans as a percentage of total assets declined to 72.8% from 77.0% at the end of last year. This change in mix stems primarily from an increase in securities which is discussed below. If income debentures and

Mercantile Bank and Its People

Mercantile Bank offers a wide range of lending services to the Canadian corporate community in a flexible and innovative manner.

In Montreal, our oldest branch, we have, in the past year, devoted an unusual amount of time to special situation financing including mergers,



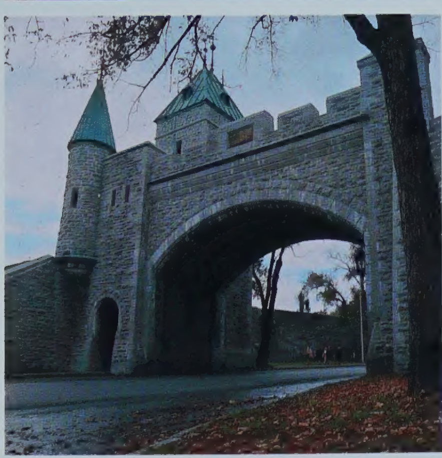
acquisitions, and foreign trade. While we contained the numbers of our clerical staff at fairly constant levels, at the same time we hired more credit officers to cope with our growing volume of business. Pictured are John Pierce, Senior Vice President (separately); from left to right seated are Dennis Frizzell, Ronald Smith and Bruno Riverin; standing are Scott Shelly, Edward Giacomelli and Brian Sullivan.

income bonds are added to the loan figures, direct financing to corporations through the bank's normal lending outlets accounted for 78.0% and 83.0% of its assets in 1976 and 1975 respectively.

Securities

Total securities grew by $137 million, or 79.5%, to reach $309 million at the end of the year for three reasons. The first was an increase in income debentures and income bonds, which rose from $77.8 million at the end of October 1975 to $88.1 million at the end of October 1976. Income debentures and income bonds are direct financing to corporations, the income from which is tax-free in the hands of the bank because certain conditions in the Income Tax Act and related regulations have been met. Although the bank received this income tax-free, the interest paid to the bank by an issuer of an income debenture or income bond is not tax-deductible, as is the interest paid on a bank loan. The interest on an instrument of this type is treated as a dividend and dividends received by the bank from a taxable Canadian corporation may be deducted from income in computing taxable income. The second factor contributing to the bank's increase in securities was preferred shares which rose to $44.6 million from less than $1 million in October 1975. These preferred shares are generally more liquid than income debentures and like income debentures and income bonds offer a favourable after-tax return to the bank.

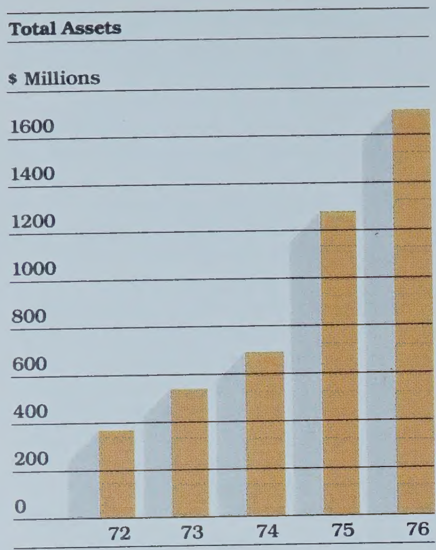
The third reason for the increase in securities was general bank liquidity. Because of the bank's increasing size and the fluctuating cash flow caused by the making and paying off of loans and the maturing of deposits, it was believed appropriate to increase the bank's overall liquidity. To the liquidity provided by securities we add cash and Bank of Canada balances and day, call and short loans to investment dealers.

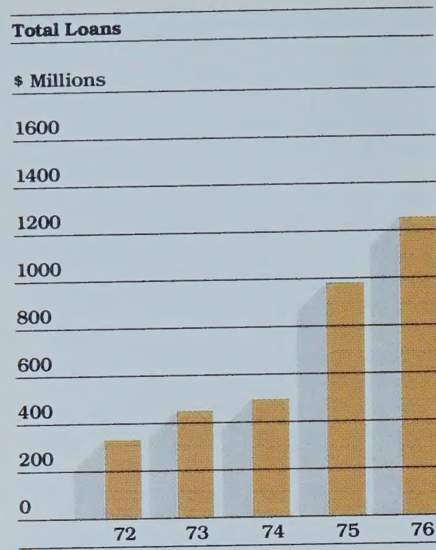


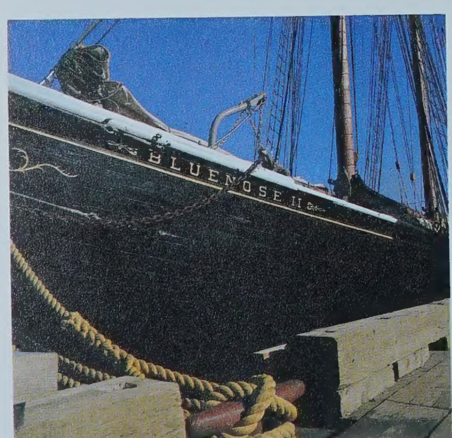
St-Louis Gate

Notre-Dame des Victoires Church, Place Royale, Quebec

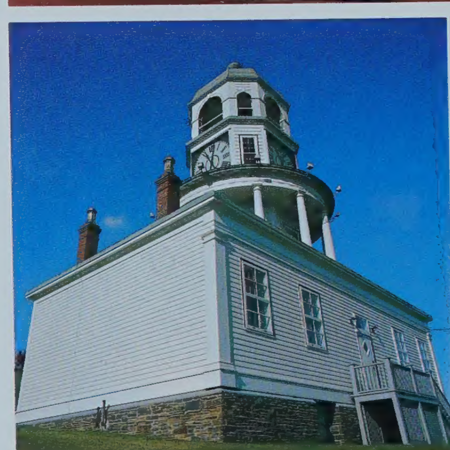
After limiting our efforts for many years to doing business in Quebec City itself we have this past year concentrated more on the outlying areas, in the north-western and eastern parts of the province. Business in this our seventh branch, which opened in 1965, consists mostly of forest products, shipping and stevedoring, and real estate lending. Here branch Vice President Gilles Séguin (seated) is seen together with Jean Plamondon and Richard Fortin.







Fishing, shipping, forest products and real estate lending play an important role in the activities carried out by our Halifax branch, opened almost twelve years ago. Our officers here have recently begun to reach out further into the Atlantic Provinces so that this office now serves Newfoundland as well. Branch Manager Dominick Williams is shown together with Robert Harper (left) and Gerard Kanary (right).



Old Town Clock, Citadel Hill, Halifax

These two liquid asset categories combined with securities, excluding preferred shares and income bonds/debentures, totalled $271.5 million or 17.3% of deposit liabilities at year-end. This total may be broken down into three parts: statutory cash reserves, $55.4 million or 3.5% of deposits; statutory secondary reserves, $70.6 million or 4.5% of deposits; and non-statutory free liquidity, (including excess statutory reserves of $11.5 million) $145.5 million or 9.3% of deposits. This build-up of what is termed liquid assets is costly as interest spread over cost of funds on instruments of this type is minimal to negative.

LIABILITIES

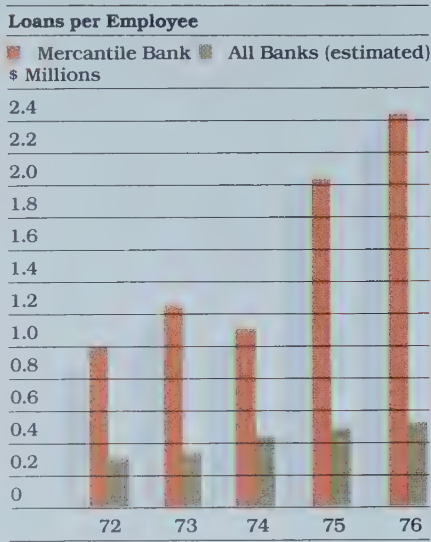
Mercantile Bank funds the bulk of its assets from money market sources particularly Bearer Deposit Notes and Certificates of Deposit sold directly to clients or through investment dealers. This funding approach, which is consistent with our corporate as opposed to retail emphasis, is reflected in the growth in other deposits from $1.06 billion at the end of 1975 to $1.4 billion at the end of 1976 —an increase of 35.4%. Other deposits comprised 83.9% of total assets at the end of 1976 versus 82.2% at the end of the prior year. Canadian dollar demand deposits which are also included in this category were $49.9 million at the end of 1976 versus $45.0 million at the end of 1975.

Accumulated Appropriations for Losses

Accumulated appropriations for losses stood at $13.3 million at October 31, 1976, against almost $8 million at October 31, 1975. This account is a reserve for major contingent losses on a bank's assets or for exceptional non-recurring losses which might arise out of banking transactions. The main reason for the increase in this account was an appropriation of $3.7 million from 1976 earnings combined with an accompanying tax credit of $3.44 million. The

While our Saint John office has only been open for two years, Mercantile has been active in this area's market place for a longer period. Business at this location is largely concentrated on new financings in industrial production. Gilles Grenier (right) is seen here with James McCallion.

King Square, Saint John

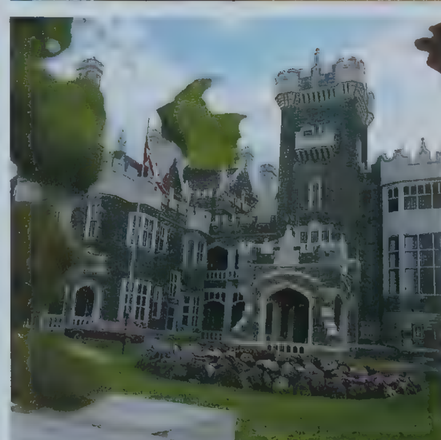


amount of this appropriation was established to take the maximum tax credit permitted by regulation. The size of the tax-deductible appropriation for 1976 is high, in relation to those of others in the banking industry, as it was for 1975. This is because in the past Mercantile Bank did not take the maximum allowable tax-deductible appropriation and now it is just catching up. The reason the bank did not take the maximum allowable appropriation prior to 1975 was to maximize earnings for dividend payout during the period of the six share issues. Over that time the bank paid out over 90% of its earnings in dividends.

A second factor adding to the appropriations total was a profit of $141.6 thousand on securities in the bank's investment account. Of this profit, $113 thousand was a reduction in previously required provision for decline in market value of securities other than those of the federal and provincial governments. Such provisions are required by the Minister of Finance to reduce the value of these securities to market value when market values are below cost. The reduction in required provisions is a reflection of the improvement in the security markets in 1976 from 1975.

On the negative side, the appropriations account was

The Central Division of the bank is located in the province of Ontario. Because of the magnitude and diversity of this market, the division is split into two major areas of coverage—Regional Ontario and Metropolitain Toronto, each of which is headed by a vice president, reporting to the division head. Together, these senior officers (left to right James Parsons, Raymond Doré and Allan Jenner) of the bank co-ordinate and control all banking activities and direct marketing efforts in the division.



Casa Loma, Toronto

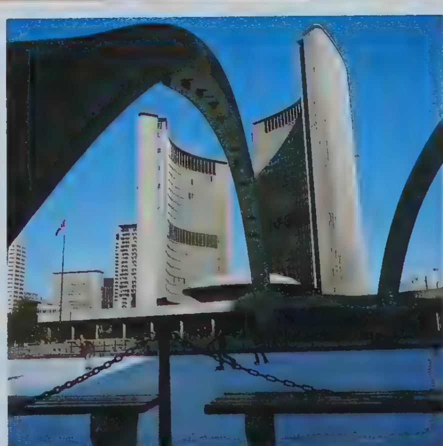
reduced by $1.95 million to reflect the difference between our 1976 loss experience and the provision included in other operating expenses based on the five-year averaging formula. During 1976 the actual loan loss experience was $4.2 million and the amount expensed in other operating expenses was $2.3 million. These figures can be compared with $1.1 million and $932 thousand respectively in 1975.

Shareholders' Equity

Shareholders' equity increased by $4.1 million from October 1975 to October 1976, to reach $62.4 million. This growth resulted primarily from a $4.2 million retention of earnings after appropriations for losses and dividends. Offsetting this was a $125 thousand reduction in shareholders' equity due to additional expenses of the recent share issues. It also should be noted that an amount of $6.7 million was transferred from undivided profits to rest account, bringing the rest account to $21 million. The Bank Act states that a bank may not issue debentures in excess of an amount equal to one half the total of paid-up capital stock and rest account. With the above-mentioned transfer, the total of these two accounts is now $61 million and the bank can issue debentures up to a total of $30.5 million. At the December 8th meeting of the Board of Directors, the Board approved the issue of $30 million in debentures with a term of twenty years, retractable to ten years, with a coupon rate of 9%. The issue was completed successfully on January 11, 1977 when the bank received the funds.

With this issue superimposed on the October 31, 1976, balance sheet, Mercantile's asset to capital ratio (a common ratio used to measure bank leverage) is 16.2 times. In comparison, this ratio was approximately 21.8 times for the banking industry at October 31, 1976. For the purpose of calculating this ratio, capital includes shareholders' equity,

Being in the largest and most sophisticated financial centre in Canada, Toronto branch has concentrated its efforts on the medium to large sized corporate financing business. Emphasis is placed on developing specialized industry and financial product knowledge within the group of professionals who represent the bank in this market. This helps us in our efforts to bring a consistently high quality of service to the varied financial needs of our clients, as well as to compete effectively for new business. In the photograph above are from left to right Edward Burge and Douglas Mills seated, and Philip Asseff, Ian Sutherland and Bryan Dudek standing.



City Hall, Nathan Phillips Square, Toronto

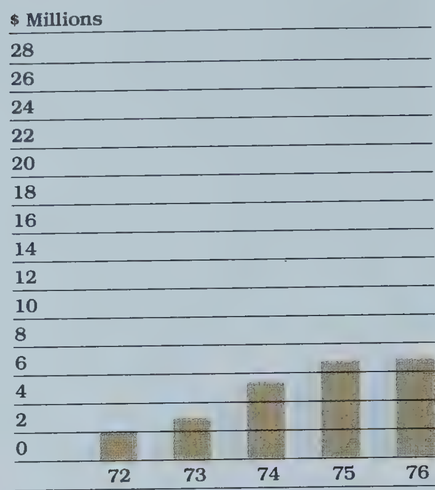
debentures, and accumulated appropriations for losses.

NET INTEREST EARNINGS

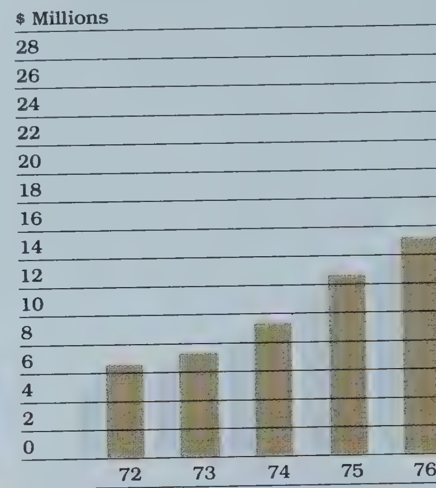
Income from loans and securities both showed large growth over the previous year. Loan income increased by 60.5% and securities' income by 93.5%, and the two categories combined by 63.7%. These rises reflect increases in volume as well as higher interest rate levels. On the other hand, interest cost on deposits increased by 79.5%.

The net result of the increase in both interest income and expenses was a rise of $5.2 million, or 21.8%, in net interest earnings, that is interest revenue less interest expenses.

Other Operating Revenue

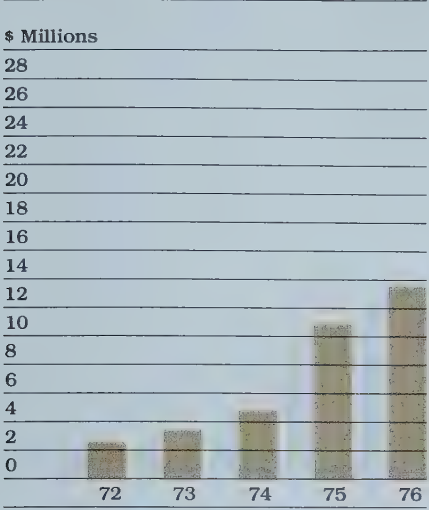


Other Operating Expenses Excluding Interest

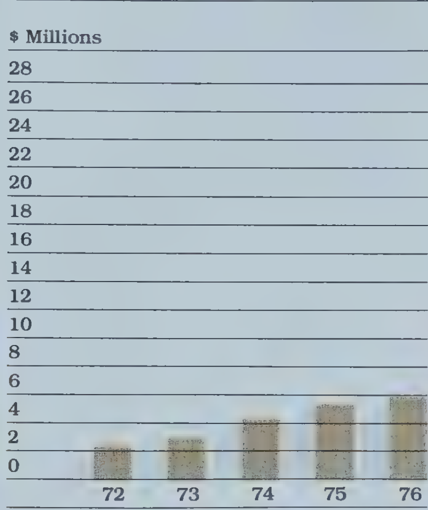


Given the importance of southwestern Ontario in Canada's economic growth, the bank has three of its twelve branches located in Hamilton, Kitchener and London. (Managers Alan Pyle, James Prichard and Stephen Barlow are seen above). As in all our locations, each of these offices has been staffed with credit officers who have strong academic training, combined with several years of business experience. As specialists in corporate finance, they have a solid understanding of business which should assist them to handle well the financial needs of their customers.

Balance of Revenue After Taxes



Dividends



Vancouver branch is responsible for the province of British Columbia and, through its Los Angeles Representative Office, the west coast of the United States. Both offices maintain a well qualified complement of officers to service both domestic and international industries unique to the west coast. Pictured left to right, seated, are Chinh Vu, Duncan Campbell, Senior Vice President, Western Division, Bruno Kristensen, Bruna Giacomazzi and Robert Affleck; standing are Brian Romer and George Fowlie.

Lions Gate Bridge, Vancouver

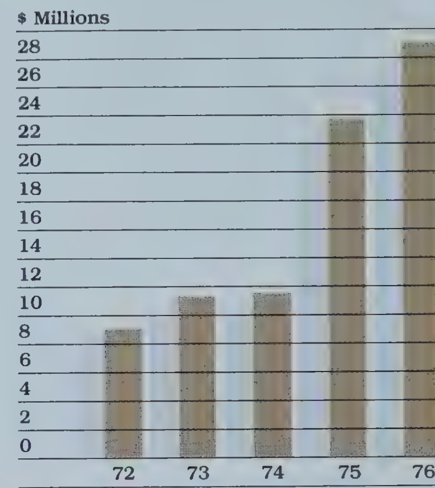
This growth is not commensurate with the increase in loans and securities outstanding due to a substantial compression of the spread between the prime lending rate to which almost all of Mercantile's loan rates are tied and the cost of money market deposits which as stated earlier fund the bulk of the bank's assets. A good indication of this compression is illustrated below:

	1976	1975
Mercantile's Daily Avg. C.$ Prime Rate	10.07%	9.70%
Avg. of monthly 90-day chartered bank deposit receipt rate*	9.46%	7.93%
	0.61%	1.77%

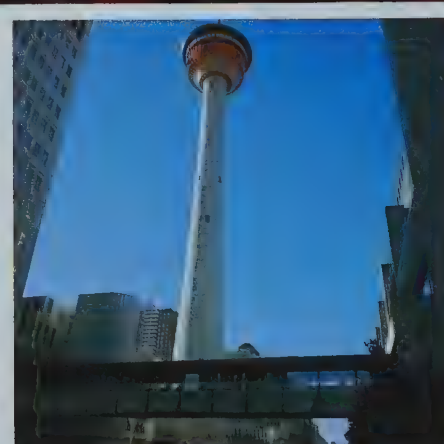
*(Bank of Canada Review)

Although the 90-day deposit receipt rate for the industry is only a proxy for Mercantile's sources of money market funds, the 1.16 per cent compression is indicative of the kind of squeeze Mercantile faced during 1976.

Net Interest Earnings



Opportunities for growth are enhanced in Calgary by the sound economic climate in which the branch operates, attracting business and people alike. Major areas of involvement are oil and gas (exploration, drilling, production, transportation), real estate (land development and construction), as well as general term and operating financing to businesses in southern Alberta. Vice President Hermann Bessert is seen here with Jim Kozak and Jim Booth.



Calgary Tower

Other Operating Revenue

Other operating revenue increased only marginally, that is, by $188 thousand or 2.7% over last year mostly as a result of a decline in foreign exchange earnings. While these earnings were large in 1976 they were below those of 1975. Fees on loans make up over 50% of the total of other operating revenue and the increase in these fees more than compensated for the decline in foreign exchange earnings.

Operating Expenses

Salary expenses increased by $1.5 million over the previous period due largely to an increase in staff, which stood at 498 at the end of 1976. This combined with the effect of cost-of-living adjustments common to the industry, and normal merit and promotional increases, also contributed to the rise. In addition, the mix of employees changed somewhat during the year as the complement of higher paid credit officers grew more quickly than that of our operating staff.

Property expenses were up by $233 thousand, or 11.5%, due primarily to rent escalations in our premises and increased space requirements in Montreal, Calgary and Edmonton.

Other operating expenses grew by $1.65 million. The bulk of the increase resulted from a $1.35 million rise in the provision for loan losses as discussed earlier. Excluding this factor the increase was $304 thousand, or 8.5% indicating tight supervision over controllable operating expenses such as stationery, communications, travel, data processing and other running costs.

Combining the three categories of operating expenses, the year-over-year increase was $3.4 million or 27.6%, but when the loss provision is factored out the rise was 18.0%.

Balance of Revenue

Balance of revenue at $20.6 million grew by $2.0 million or 10.8% from last year. This is

Edmonton Art Gallery

he Edmonton branch has enjoyed rapid growth since its inception in November 1971. Major concentrations of its loan portfolio are in the energy service and real estate development industries. As the Alberta economy becomes more industrialized, significant growth is being sought from the manufacturing sector. Photographed are (from left to right) Jean Fournet, Douglas Schmitt, Eric Campbell, George Wensveen and Alan Van de Mosselaer.

considerably below asset growth due primarily to the spread compression and the increased proportion of tax-free revenue from income bonds and debentures, and preferred shares. As a percentage of total average assets, balance of revenue was 1.38%, well below the return allowable under Anti-Inflation Board regulations.

Provision For Income Tax

Taxes declined by $494 thousand to $6.7 million in 1976, due largely to an increase in the proportion of tax-free revenue from income bonds, income debentures and preferred shares to net revenue before tax. The effective tax rate fell to 32.4% in 1976 from 38.6% in 1975.

Balance of Revenue After Tax

Balance of revenue after tax increased by 22.0% to reach $13.9 million. This represents a growth of $2.5 million from 1975. On a per share basis the increase was 10.8% from $1.57 last year to $1.74 in 1976. The lower growth rate on a per share basis is due to the larger number of shares outstanding in 1976, 8 million compared to 7.3 million in 1975. After-tax return on average assets declined to 0.93% from 1.25% in 1975, but remains well above the industry average.

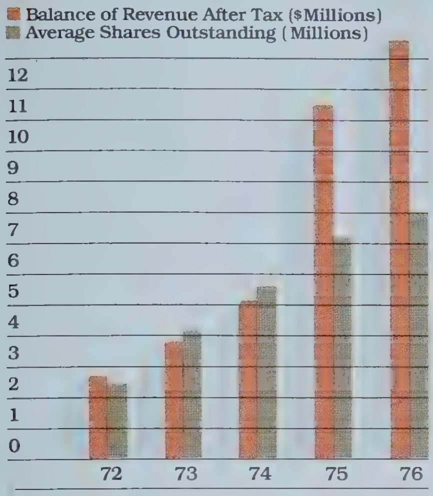
Dividends

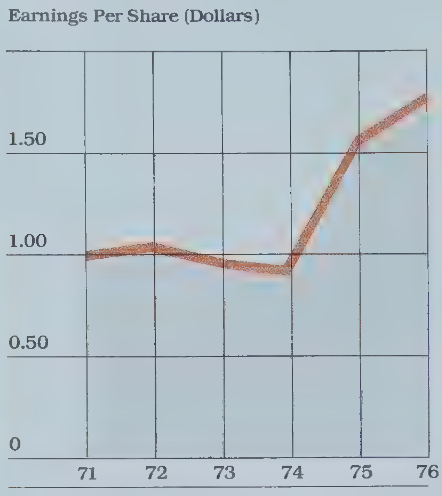
As in 1975, four regular dividends of 12.5¢ and an extra dividend of 25.0¢ were declared in 1976.

The bank has been represented in Winnipeg since 1964 and continues to experience strong and steady growth in the province of Manitoba. To accommodate its increased level of activity there the Winnipeg branch moved in 1973 to larger quarters in "The Mercantile Bank Building" at the corner of Broadway and Donald Street, where Charles Hughes, Elfrieda Main, Maurice Christens and James Bruce are pictured above.

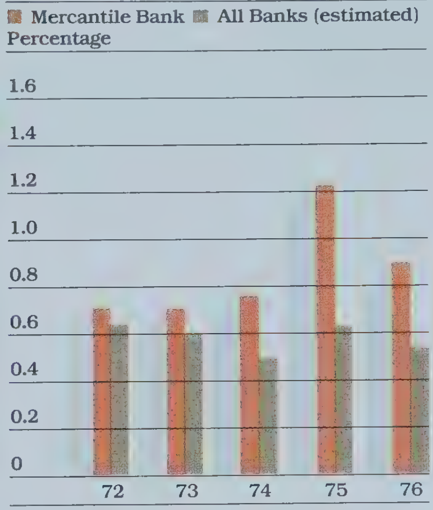
Fort Garry, Winnipeg

Effect of Dilution on Earnings





After Tax – Return On Average Assets



Administration is a support function to the credit and deposit activities of Mercantile Bank. It is therefore responsible for the overall supervision of branch and institutional operations, excluding the specialty areas of personnel and inspection. Specifically, from an institutional point of view, administration encompasses accounting, management information systems, methods and procedures, systems and data processing, as well as premises and services.

Sean Ahern, Senior Vice President, Bill McLaney, Heinz Weindler and Colin Kirk in the accompanying photograph give this vital responsibility its leadership.

he Investment and Exchange Department is responsible for the bulk of the deposits required to fund the bank. As the bank is a major participant in the Canadian money market, this department

City Hall, Montreal

gathers deposits ranging up to five years in maturity. It is also an active dealer in foreign exchange particularly in Canadian and U.S. dollars, as well as in the major continental European currencies. The dealers photographed are from left to right, standing Gregory Latremoille, Pierre Ghazi, Eileen Koncewicz, and seated Myron Zbyradowski and Jean Goyette, Senior Vice President.

here are other support functions vital to the success of our organization. Briefly: Personnel under Vice President David Franzen is responsible for the management of our key resource—people—to the advantage of the bank and our clients. Staff is brought together for training seminars to keep abreast of the latest developments under the able direction of Jim Van Slyck, Vice President. The Inspection Department ensures that all operations are carried out in accordance with prescribed guidelines under the leadership of Chief Inspector, Raymond Roy. In addition to identifying new products for the bank, the planning function under Vice President John Groves includes continuous reviews of the bank's objectives and strategies. Experienced advice is supplied to the field by our Real Estate Department under the guidance of Vice President Larry Pirnak. And, at our bank the Corporate Secretarial and Public Relations functions are carried out together by Bill Livingstone, Vice President. These men appear from left to right; Raymond Roy, Larry Pirnak, Jim Van Slyck, Bill Livingstone, John Groves and David Franzen.

Statue of De Maisonneuve and Notre-Dame Church, Place d'Armes, Montreal

Statement of Revenue, Expenses and Undivided Profits

For the Financial Year Ended October 31, 1976
(with comparative figures for 1975)

	1976	1975
Revenue:		
Income from loans	$126,669,498	$78,912,454
Income from securities	16,023,032	8,280,917
Other operating revenue	7,148,675	6,961,293
Total revenue	149,841,205	94,154,664
Expenses:		
Interest on deposits	113,520,904	63,250,174
Salaries, pension contributions and other benefits	7,301,254	5,782,380
Property expenses including depreciation	2,262,596	2,029,201
Other operating expenses, including provision for losses on loans based on five-year average loss experience	6,174,348	4,522,565
Total expenses	129,259,102	75,584,320
Balance of revenue	20,582,103	18,570,344
Provision for income taxes relating thereto	6,674,000	7,168,000
Balance of revenue after provision for income taxes	13,908,103	11,402,344
Appropriation for losses, net of income taxes related thereto	3,700,000	2,500,000
Balance of profits for the year	10,208,103	8,902,344
Dividends	6,001,911	5,859,024
Amount carried forward	4,206,192	3,043,320
Undivided profits at beginning of year	3,887,660	844,340
	8,093,852	3,887,660
Transferred to Rest Account	6,726,700	—
Undivided profits at end of year	$ 1,367,152	$ 3,887,660
Balance of revenue after provision for income taxes per share based on average shares outstanding	$1.74	$1.57
Balance of profits per share based on average shares outstanding	$1.28	$1.22

See accompanying note to financial statements.

Statement of Accumulated Appropriations for Losses

For the Financial Year Ended October 31, 1976
(with comparative figures for 1975)

	1976	1975
Accumulated appropriations at beginning of year:		
Tax-paid	$ 1,603	$ 1,603
General	7,991,837	3,087,053
Total	7,993,440	3,088,656
Add (deduct):		
Appropriation from current year's operations, net of income taxes related thereto as set out below	3,700,000	2,500,000
Loss experience on loans less provision included in other operating expenses	(1,947,972)	(217,301)
Profits and losses on securities, including provisions to reduce securities other than those of Canada and its provinces to values not exceeding market	141,631	20,085
Income tax credit related to appropriation from current year's operations	3,440,000	2,602,000
Accumulated appropriations at end of year	$13,327,099	$ 7,993,440
Tax-paid	$ 1,603	$ 1,603
General	13,325,496	7,991,837
	$13,327,099	$ 7,993,440

See accompanying note to financial statements.

Statement of Assets and Liabilities
as at October 31, 1976 (with comparative figures for 1975)

Assets

	1976	1975
Cash and due from banks	$ 84,028,887	$ 72,294,389
Cheques and other items in transit, net	9,790,894	89,915
Total cash resources	93,819,781	72,384,304
Securities issued or guaranteed by Canada, at amortized value	97,703,339	56,975,221
Securities issued or guaranteed by provinces, at amortized value	71,154,740	4,369,182
Other securities, not exceeding market value	140,375,472	110,891,448
Total securities	309,233,551	172,235,851
Day, call and short loans to investment dealers and brokers, secured	30,908,460	12,500,000
Other loans, including mortgages, less provision for losses	1,212,930,604	979,529,562
Total loans	1,243,839,064	992,029,562
Bank premises, at cost, less amounts written off	3,256,169	2,676,771
Customers' liability under acceptances, guarantees and letters of credit as per contra	55,537,317	44,332,403
Other assets	2,407,337	4,503,676
	$1,708,093,219	$1,288,162,567

John P. Murphy
President & Chief Executive Officer

See accompanying note to financial statements.

Liabilities

	1976	1975
Deposits by Canada	$ 4,602,312	$ 2,713,111
Deposits by provinces	37,552,135	19,770,744
Deposits by banks	81,203,749	48,694,319
Personal savings deposits, payable after notice in Canada in Canadian currency	11,463,818	9,291,208
Other deposits	1,433,332,926	1,058,373,900
Total deposits	1,568,154,940	1,138,843,282
Acceptances, guarantees and letters of credit	55,537,317	44,332,403
Other liabilities	8,706,711	38,707,482
Total liabilities	1,632,398,968	1,221,883,167
Accumulated appropriations for losses	13,327,099	7,993,440
Shareholders' equity:		
Capital:		
Authorized—8,000,000 shares, par value $5 each; issued and fully paid—8,000,000 shares	40,000,000	40,000,000
Rest account	21,000,000	14,398,300
Undivided profits	1,367,152	3,887,660
Shareholders' equity	62,367,152	58,285,960
	$1,708,093,219	$1,288,162,567

Walter A. Prisco
Executive Vice President & Chief General Manager

Statement of Rest Account

For the Financial Year Ended October 31, 1976
(with comparative figures for 1975)

	1976	1975
Balance at beginning of year	$14,398,300	$10,406,300
Premium on issuance of capital stock	—	4,200,000
Expenses of issue, net of income taxes relating thereto	(125,000)	(208,000)
Transferred from undivided profits	6,726,700	—
	6,601,700	3,992,000
Balance at end of year	$21,000,000	$14,398,300

See accompanying note to financial statements.

Note to Financial Statements

October 31, 1976

The aggregate provision for income taxes is made up as follows:

	1976	1975
In respect of balance of revenue	$6,674,000	$7,168,000
In respect of current appropriations for losses (credit)	(3,440,000)	(2,602,000)
In respect of expenses of capital stock issue (Rest Account)	125,000	(210,812)
	$3,359,000	$4,355,188

Auditors' Report to the Shareholders

We have examined the statement of assets and liabilities of The Mercantile Bank of Canada as at October 31, 1976 and the statements of revenue, expenses and undivided profits, accumulated appropriations for losses and rest account for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the foregoing statements present fairly the financial position of the Bank as at October 31, 1976 and the revenue, expenses, changes in undivided profits, accumulated appropriations for losses and rest account of the Bank for the year ended on that date.

J. S. Grant, C.A.
of Peat, Marwick, Mitchell & Co.

J. E. Maheu, C.A.
of Maheu, Noiseux & Associés

Montreal, Quebec
November 22, 1976

Twenty-Third Annual General Meeting of the Shareholders

MINUTES of the Twenty-Third Annual General Meeting of the Shareholders of The Mercantile Bank of Canada held at the Château Champlain, Montreal, on Wednesday, the 8th day of December, 1976, at 10:00 o'clock of the forenoon.

The Chairman of the Bank, Mr. G.A. Costanzo, presided and the Secretary, Mr. W.T. Livingstone, acted as Secretary of the Meeting. In opening the Meeting, the Chairman introduced the officers present with him on the platform and also the Directors present at the Meeting.

The notice of the Meeting having been sent to all Shareholders entitled to receive it and a quorum being reported present, the Chairman declared the Meeting to be duly convened and constituted.

With the consent of the Meeting, the Chairman appointed Mrs. R.E. Heard and Mrs. A. Meyer, both of The Royal Trust Company, to act as Scrutineers.

Upon motion of Mr. A. Bachand, seconded by Mr. H.T. Mitchell and carried, the Minutes of the last Annual Meeting held on December 10, 1975, were taken as read and confirmed.

The Chairman then asked the Secretary to read the Directors' Report to the Shareholders, omitting the Annual Statement and the Auditors' Report as these had already been sent to all Shareholders and copies were in the hands of those present.

Directors' Report

The Directors take pleasure in submitting to the Shareholders the Annual Statement of the Bank for the year ended October 31, 1976, together with the Auditors' Report.

With deep regret, the Directors record the deaths during the year of The Honourable Louis P. Gélinas, who had been a valued member of the Board for many years, and G. Stevens Lynch, who had served as Secretary of the Bank since 1956.

In September, Mr. Mitchell Franklin of Saint John, N.B. was appointed a Director.

The loyal and efficient services of the staff are gratefully and sincerely acknowledged.

G.A. Costanzo
Chairman

Montreal, December 8, 1976

The Chairman said that before moving the adoption of the Directors' Report he would ask the President, Mr. John Murphy, to address the Meeting and would then ask Mr. Walter Prisco, Executive Vice-President and Chief General Manager, to report on the Bank's operations.

(The President's address and the Chief General Manager's report are reproduced on pages two and four respectively).

It was moved by the Chairman and seconded by Mr. H.A. Benham-

THAT the Directors' Report to the Shareholders, including the Annual Statement and the Auditors' Report thereon, in respect of the Bank's fiscal year ended October 31, 1976, be and the same is hereby approved and adopted.

The Chairman proposed that the ballot on this motion be taken later in the Meeting.

Auditors

It was moved by Mr. H.H. Stikeman and seconded by Mr. B.R.B. Magee-

THAT Mr. John S. Grant, C.A. and Mr. J. Emile Maheu, C.A. be appointed Auditors of the Bank for the current year and their remuneration in that capacity be not more than \$50,000.

The Chairman proposed that the ballot on this motion be taken later in the Meeting.

Directors

The Chairman said that pursuant to Shareholders' By-Law IV, the number of Directors had been increased from fifteen to sixteen and it was proposed that the present Directors, all of whom were eligible, be re-elected and also that Mr. Robert F.B. Logan, Senior Vice-President of Citibank, N.A., be elected.

At the request of the Chairman, the Secretary then read the names of the persons proposed for election as Directors, namely: A. Bachand, H.A. Benham, G.A. Costanzo, C.W. Desch, M. Franklin, J.T. Johnson, R.F.B. Logan, B.R.B. Magee, H.T. Mitchell, J.P. Murphy, A.T. Seedhouse, R.D. Southern, H.A. Steinberg, H.H. Stikeman, J.H. Taylor, E.D.H. Wilkinson.

Miss V.M. Henderson then nominated the persons whose names had been read by the Secretary for election as Directors of the Bank for the ensuing year.

Amendment of Shareholders' By-Law VIII

In introducing this subject, the Chairman said: "The next item of business concerns the remuneration of Directors. The present relevant By-Law enacted six years ago stipulates that the Directors may be remunerated for their services in each fiscal year by an amount not to exceed seventy-five thousand dollars. Given the expansion the Bank has experienced over this period, the growth in the size of the Board and the desire to provide flexibility for the future, it is proposed to you that the By-Law be amended to increase this sum to one hundred and fifty thousand dollars."

It was moved by Mr. J.T. Johnson and seconded by Mr. J.H. Taylor-

THAT Shareholders' By-Law VIII be and is hereby repealed and replaced by the following:

In each fiscal year of the Bank a sum not exceeding one hundred and fifty thousand dollars may be taken by the directors from the funds of the Bank as remuneration for their services as directors and the directors may apportion the same amongst themselves in such manner as they shall determine. The directors may also provide for payment to the chairman, the vice-chairmen, the president and the vice-presidents of such additional remuneration for their services as officers as the directors may from time to time determine. The directors shall also be reimbursed for their out-of-pocket expenses properly incurred by them in the performance of their duties in connection with the affairs of the Bank.

The Chairman then directed that a ballot be taken on the motions to adopt the Directors' Report, to appoint Auditors, to amend Shareholders' By-Law VIII and for the election of Directors. Upon receiving the report of the Scrutineers, the Chairman declared that the resolutions adopting the Directors' Report, appointing Auditors and amending Shareholders' By-Law VIII had been duly passed and that the persons whose names had been read by the Secretary, and duly nominated, had been elected Directors.

The Meeting then terminated.

G.A. Costanzo
Chairman

W.T. Livingstone
Secretary

At the subsequent Meeting of the Board of Directors the following officers were elected:

- Chairman, G.A. Costanzo; President and Chief Executive Officer, J.P. Murphy; Vice-President, A.T. Seedhouse.
- W.A. Prisco continues as Executive Vice-President and Chief General Manager.

Board of Directors/Executive Officers

Left to right, ***front row:*** *A. Bachand, J.P. Murphy, H.A. Steinberg, G.A. Costanzo, H.T. Mitchell, H.H. Stikeman, Q.C., H.A. Benham, and R.F.B. Logan;* ***Back row:*** *C.W. Desch, J.H. Taylor, A.T. Seedhouse, J.T. Johnson, Q.C., M. Franklin, B.R.B. Magee, and E.D.H. Wilkinson, Q.C.*
**R.D. Southern not pictured*

Board of Directors

Chairman
G. A. Costanzo, New York
Vice Chairman
Citibank, N.A.

President & Chief Executive Officer
John P. Murphy, Montreal

Vice President
Alfred T. Seedhouse, Toronto
Chairman
The Manufacturers Life Insurance Company

André Bachand, Montreal
Director
Development Fund
University of Montreal

Hugh A. Benham, Winnipeg
Investment Counsel

Carl W. Desch, New York
Senior Vice President & Cashier
Citibank, N.A.

Mitchell Franklin, Saint John
President
Franklin Group of Companies

John T. Johnson, Q.C., Toronto
Partner
Borden & Elliot

Robert F. B. Logan, New York
Senior Vice President
Citibank, N.A.

Brian R. B. Magee, Toronto
Chairman
A. E. LePage Limited

Howard T. Mitchell, Vancouver
Chairman
Mitchell Press Limited

Ronald D. Southern, Calgary
President & Chief Executive Officer
Atco Industries Ltd.

H. Arnold Steinberg, Montreal
Executive Vice President
Administration and Finance
Steinberg's Limited

H. Heward Stikeman, Q.C., Montreal
Senior Partner
Stikeman, Elliott, Tamaki, Mercier & Robb

John H. Taylor, Toronto
Chairman
North American Life Assurance Company

Edward D. H. Wilkinson, Q.C., Vancouver
Partner
Russell & DuMoulin

Executive Officers

John P. Murphy
President & Chief Executive Officer

Walter A. Prisco
Executive Vice President & Chief General Manager

T. Sean Ahern
Senior Vice President
Administration

Patrick F. Bowditch
Senior Vice President
Credit

Duncan Campbell
Senior Vice President
Western Division

Bernard J. Goyette
Senior Vice President
Eastern Division

John E. Pierce
Senior Vice President
Central Division

Raymond Doré
Vice President
International Division

David W. Franzen
Vice President
Personnel

John R. Groves
Vice President
Corporate Planning

Gregory R. Latremoille
Vice President
Investment & Exchange
Regional Office, Toronto

William T. Livingstone
Vice President & Secretary
Corporate Functions & Public Relations

Larry Pirnak
Vice President
Real Estate

James A.W. Van Slyck
Vice President
Training & Development

Raymond M. Roy
Chief Inspector

Harold F. Henry
General Manager
Credit

Heinz K. Weindler
Deputy General Manager
Accounting

Raymond M. Roy
Division Head
Investment & Exchange

Head Office and Branches

Head Office

625 Dorchester Boulevard West
Montreal, Quebec H3B 1R3

Branches

Eastern Division
Montreal Branch
625 Dorchester Boulevard West
Dennis L. Frizzell
Vice President

Quebec City Branch
580 Grande Allée East
Gilles Séguin
Vice President

Halifax Branch
1681 Granville Street
C. Dominick Williams
Manager

Saint John Branch, N.B.
2 King Street
Gilles P. Grenier
Vice President

Central Division
120 Adelaide Street West, Toronto
Allan E. Jenner
Vice President, Western Ontario
Stephen J. Lamphier
Supervisor,
Northern & Eastern Ontario

Toronto Branch
120 Adelaide Street West
James S. Parsons
Vice President
Ian C. Sutherland
Vice President

Kitchener Branch
22 Frederick Street
James C. Prichard
Manager

Hamilton Branch
47 James Street South
Alan J. Pyle
Manager

London Branch
272 Dundas Street
Stephen D. Barlow
Manager

Western Division
Vancouver Branch
1177 West Hastings Street
Brian McL. Romer
Vice President

Calgary Branch
441, 5th Avenue, S.W.
Hermann G. Bessert
Vice President

Edmonton Branch
10030 Jasper Avenue
Jean G. Fournet
Vice President

Winnipeg Branch
305 Broadway Avenue
Maurice M. Christens
Vice President

Los Angeles Representative Office
515 South Flower Street
Donald A. Anderson
Representative

On peut obtenir la version française de ce rapport à l'adresse suivante:

Relations publiques
Banque Mercantile du Canada
Case postale 520 Station "A"
Montréal, Québec H3C 2T6


MERCANTILE BANK

Pte

Mercantile Bank of Canada

INTERIM REPORT
FIRST HALF 1976

REPORT TO SHAREHOLDERS

We have changed the format of this report to you in the hope that the extra figures provided, on a quarterly basis, will give you more information on Mercantile Bank's performance.

For the first half of the 1976 fiscal year the Bank's balance of revenue after taxes amounted to $7,007,120, an increase of 44.5% over the $4,850,260 of a year earlier. Despite an increase of 22.1% in the number of average shares outstanding between the first six months of fiscal 1975 and the corresponding period of 1976 as a result of two new share issues last year, the balance of revenue after provision for income taxes per share rose to 87.6 cents from 74.0 cents. The regular dividend of 12.5 cents was declared in the quarter.

Total revenue, which rose by 65.2% to $68.9 million, mainly on the basis of increased loans, was partly offset by both a higher deposit volume and narrower spread between interest costs and prime rate. Deposit costs rose by 76.4% to $50.4 million comparing the first half of 1976 with that of 1975 or more than doubled to $26.5 million on a quarterly basis. As a result, total expenses amounted to $57.7 million for the six months ending April 30, 1976 compared with $34.3 million a year earlier and to $30.3 million and $15.2 million for the three months ending April 30, 1976 and 1975 respectively.

Total assets grew to just over $1.5 billion during the last quarter, standing 79.4% above their 1975 level on April 30, 1976. During the same period both total loans and total deposits rose by 83.6% to $1.1 billion and $1.4 billion respectively.

John P. Murphy,
President and Chief Executive Officer

STATEMENT OF REVENUE AND EXPENSES (unaudited)

	For the three months ended April 30		For the six months ended April 30	
REVENUE:	**1976**	**1975**	**1976**	**1975**
Income from loans	**$31,274,761**	$16,234,263	**$59,433,470**	$34,254,807
Income from securities	**3,020,933**	1,778,315	**5,714,909**	3,980,718
Other operating revenue	**1,693,210**	1,545,451	**3,727,177**	3,444,597
Total revenue	**35,988,904**	19,558,029	**68,875,556**	41,680,122
EXPENSES:				
Interest on deposits	**26,461,982**	12,242,732	**50,393,446**	28,562,213
Salaries, pension contributions and other benefits	**1,758,326**	1,409,303	**3,419,783**	2,679,516
Property expenses, including depreciation	**533,265**	534,954	**1,044,826**	963,934
Other operating expenses including provision for losses on loans based on estimated five-year average loss experience	**1,513,515**	1,057,220	**2,802,381**	2,057,199
Total expenses	**30,267,088**	15,244,209	**57,660,436**	34,262,862
Balance of revenue	**5,721,816**	4,313,820	**11,215,120**	7,417,260
Provision for income taxes relating thereto	**2,135,000**	1,645,000	**4,208,000**	2,567,000
Balance of revenue after provision for income taxes (Note 1)	**$ 3,586,816**	$ 2,668,820	**$ 7,007,120**	$ 4,850,260
Balance of revenue after provision for income taxes per share based on average shares outstanding (Note 2)	**44.8¢**	37.6¢	**87.6¢**	74.0¢
Dividends declared in the period	**$ 1,000,000**	$ 992,000	**$ 2,002,000**	$ 1,866,000
Per share (Note 2)	**12.5¢**	12.5¢	**25.0¢**	25.0¢

NOTE 1—No provision has been made for transfer to accumulated appropriations for loss. The amount of the transfer can be determined only at the end of the financial year.

NOTE 2—The average number of shares for the three months and six months ended April 30, 1976 was 8,000,000; during the same periods in 1975 there were 7,101,124 and 6,552,486 shares outstanding respectively.

Balance Sheet Highlights

Unaudited (in thousand of dollars)

	April 30 1976	April 30 1975
Total assets	**$ 1,520,487**	$ 847,688
Total loans	**1,149,373**	626,039
Total deposits	**1,353,390**	737,296

AR50

Banque Mercantile du Canada

RAPPORT INTÉRIMAIRE PREMIER SEMESTRE 1976

RAPPORT AUX ACTIONNAIRES

Nous avons modifié la présentation de ce rapport en y incluant nos résultats trimestriels de façon à vous donner une meilleure vue d'ensemble de l'évolution de la Banque Mercantile.

À la fin du premier semestre de l'exercice financier 1976, le solde des revenus de la Banque après impôts atteignait $7,007,120 au regard de $4,850,260 un an plus tôt, soit un gain de 44.5%. Malgré une augmentation de 22.1% dans le nombre moyen d'actions en circulation entre le premier semestre de 1975 et la période correspondante de 1976, augmentation faisant suite à deux émissions de nouvelles actions durant le dernier exercice, le solde des revenus après la provision pour impôts est néanmoins passé de 74.0 cents l'action à 87.6 cents. Le dividende régulier de 12.5 cents a été déclaré au cours du trimestre.

L'augmentation de 65.2% du revenu total, qui a atteint $68.9 millions sous l'effet principalement de la croissance des prêts, a été en partie contrebalancée à la fois par une augmentation du volume de dépôts et par un rétrécissement de la marge entre les coûts en intérêt et le taux préférentiel. En effet, si on les compare à ceux du premier semestre de 1975, les coûts des dépôts accusent une hausse de 76.4% et atteignent $50.4 millions à la fin de ce semestre ou, sur une base trimestrielle, ont plus que doublé pour atteindre $26.5 millions. Par conséquent, le total des dépenses s'est élevé à $57.7 millions pour le semestre terminé le 30 avril 1976, au regard de $34.3 millions un an plus tôt; pour le trimestre terminé le 30 avril 1976, ce même total des dépenses a atteint $30.3 millions, au regard de $15.2 millions pour le trimestre correspondant de 1975.

L'actif total a légèrement dépassé $1.5 milliard pendant le dernier trimestre et, le 30 avril 1976, était de 79.4% supérieur à ce qu'il était l'année précédente. Au cours de cette même période, le total des prêts et celui des dépôts se sont accrus de 83.6% pour atteindre $1.1 milliard et $1.4 milliard respectivement.

Le président et chef de la direction,
John P. Murphy

ÉTAT DES REVENUS ET DÉPENSES (sous réserve de vérification)

	Pour le trimestre terminé le 30 avril 1976	1975	Pour le semestre terminé le 30 avril 1976	1975
REVENUS:				
Revenus des prêts	**$31,274,761**	$16,234,263	**$59,433,470**	$34,254,807
Revenus des valeurs	**3,020,933**	1,778,315	**5,714,909**	3,980,718
Autres revenus d'exploitation	**1,693,210**	1,545,451	**3,727,177**	3,444,597
Total des revenus	**35,988,904**	19,558,029	**68,875,556**	41,680,122
DÉPENSES:				
Intérêts sur dépôts	**26,461,982**	12,242,732	**50,393,446**	28,562,213
Traitements, contributions aux caisses de retraite et autres prestations	**1,758,326**	1,409,303	**3,419,783**	2,679,516
Frais des établissements, incluant les amortissements	**533,265**	534,954	**1,044,826**	963,934
Autres frais d'exploitation incluant une provision pour pertes sur prêts établie d'après la moyenne des pertes au cours des cinq derniers exercices	**1,513,515**	1,057,220	**2,802,381**	2,057,199
Total des dépenses	**30,267,088**	15,244,209	**57,660,436**	34,262,862
Solde des revenus	**5,721,816**	4,313,820	**11,215,120**	7,417,260
Provision pour impôts sur le revenu	**2,135,000**	1,645,000	**4,208,000**	2,567,000
Solde des revenus après la provision pour impôts sur le revenu (Note 1)	**$ 3,586,816**	$ 2,668,820	**$ 7,007,120**	$ 4,850,260
Solde des revenus après la provision pour impôts sur le revenu par action basé sur la moyenne des actions en cours (Note 2)	**44.8¢**	37.6¢	**87.6¢**	74.0¢
Dividendes déclarés durant la période	**$ 1,000,000**	$ 992,000	**$ 2,002,000**	$ 1,866,000
Par action (Note 2)	**12.5¢**	12.5¢	**25.0¢**	25.0¢

NOTE 1—Aucune provision n'a été faite pour virement aux réserves pour pertes puisque le montant ne peut en être établi avant la fin de l'exercice.

NOTE 2—La moyenne des actions en cours durant le trimestre et durant le semestre terminés le 30 avril 1976 était de 8,000,000; durant les périodes correspondantes de 1975, il y avait 7,101,124 et 6,552,486 actions en cours respectivement.

Faits saillants du bilan

sous réserve de vérification (en milliers de dollars)

	30 avril 1976	30 avril 1975
Actif total	**$ 1,520,487**	$ 847,688
Total des prêts	**1,149,373**	626,039
Total des dépôts	**1,353,390**	737,296